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July 13, 1998

JUL 13 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

VIA HAND DELIVERY

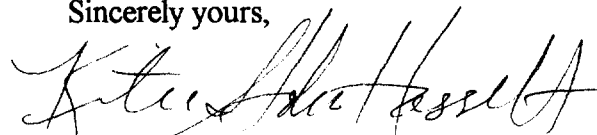
Re: CC Docket No. 96-128 -- Comments of IXC Communications Services,
Inc. In Response to June 19, 1998 Public Notice

Dear Ms. Salas:

On behalf of IXC Communications Services, Inc. ("IXC-CSI"), enclosed please find an original and four (4) copies of IXCLD's Reply Comments in the above-referenced matter. Two copies of IXC-CSI's Comments are being provided to the Chief, Enforcement Division, Common Carrier Bureau, and one copy is being provided to International Transcription Services, Inc. ("ITS").

Should you have any questions, please do not hesitate to contact me.

Sincerely yours,



Kristie Stokes Hassett

Enclosures

No. of Copies rec'd Ord
List A B C D E

cc: Chief, Enforcement Division -- 2 copies, via Hand Delivery
ITS -- 1 copy via Hand Delivery
Greg Lipscomb, Enforcement Division, Common Carrier Bureau

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

Original

In the Matter of)
)
Implementation of the)
Pay Telephone Reclassification)
and Compensation Provisions of the)
Telecommunications Act of 1996)

Docket No. 96-128

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

**COMMENTS OF IXC COMMUNICATIONS SERVICES, INC.
IN RESPONSE TO THE COMMISSION'S JUNE 19, 1998 PUBLIC NOTICE**

IXC Communications Services, Inc., formerly IXC Long Distance, Inc.,
(hereinafter "IXC-CSI") is a non-dominant interexchange long distance service provider.¹
IXC-CSI currently provides service in the 48 contiguous continental United States as well as
internationally. IXC-CSI also acts as an underlying carrier for a large number of resale carriers.
IXC-CSI submits these comments in response to the Commission's June 19, 1998 Public Notice
seeking comments on the remand issues in this proceeding.

The Commission has been attempting to develop a payphone compensation rate
that accurately reflects what the level of compensation would be in a truly competitive market.
IXC-CSI agrees that this is the appropriate inquiry, since any regulatory mandate should attempt
to recreate a competitive environment. However, because pay telephones are a location
monopoly and a bottleneck for access to the switched network, IXC-CSI believes that a market-
based methodology is not the appropriate way to establish a per-call compensation rate for

¹ As IXC-CSI notified the Commission on July 9, 1998, the name change to IXC
Communications Services, Inc. took place on June 16, 1998.

coinless calls. IXC-CSI urges the Commission to reconsider its position, and to set payphone compensation rates equal to the Total Element Long-Run Incremental Cost ("TELRIC") of the service.

It is a well accepted axiom of microeconomics that where true competition exists, the rate will move toward a level equal to the marginal cost to provide the service or product. In the absence of an existing competitive market or appropriate surrogate market, the Commission should set the payphone compensation at a level that best approximates marginal cost in the practical sense.

[T]he salient feature of perfect competition is that in long run market equilibrium, market price equals minimum average total cost. This means that each unit of output is produced at the lowest possible cost, either from the standpoint of money cost or of resource usage. The product sells for its average (long-run) cost of production; each firm accordingly earns the 'going' rate of return in competitive industries, nothing more or less."

Gould and Ferguson, Microeconomic Theory, 5th Edition, Richard D. Irwin, Inc. (1980) at 240.

The Telecommunications Act of 1996 mandates a per-call compensation rate that is reasonable. Professors Areeda and Turner in their analysis of predatory pricing conclude that "pricing at marginal cost is the competitive and socially optimal result." Areeda & Turner, Predatory Pricing and Related Practices Under Section 2 of the Sherman Act, 88 Harv. L. Rev. 697, 711 (1975). Similarly, Professor Kahn notes that in strictly economic terms "those prices are fair that are equal to marginal costs, those unfair that are not equal." Kahn, The Economics of Regulation: Principles and Institutions Volume I, at 56 (John Wiley & Sons, Inc. 1970). Indeed, economic efficiency requires that rates be set at long-run marginal costs. *Id.* at 161. Under effective competition, firms with lower costs will reduce their prices in order to take business

away from their higher-cost competitors. *See Id.* at 164.

While some payphone service providers ("PSPs") may argue that locational monopolies do not exist and that the market is competitive, there is no evidence to bear out this argument. In any event, if real competition existed, prices would be driven to cost, and PSPs should not object to compensation rates equal to their marginal cost of providing the service. A per-call compensation rate that approximates incremental costs would provide reasonable compensation. PSPs that are able to charge rates that significantly exceed their marginal costs can do so only because they have locational monopolies, and any compensation rate exceeding marginal cost would be a windfall.

In another proceeding, the Commission decided that TELRIC is the appropriate way to determine prices that new entrants are to pay for local telephone companies' unbundled network elements and for interconnection. *Interconnection Order*, CC Docket No. 96-325, First Report and Order, 11 FCC Rcd. 15499, at 15515 and 15864 (1996). Similarly here, IXC-CSI urges the Commission to reconsider its attempt to use a "market-based" methodology, and to prescribe TELRIC as the basis for establishing payphone compensation.

Respectfully submitted,

A handwritten signature in cursive script that reads "Gary L. Mann" followed by a date "7/13/98".

Gary L. Mann
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Dated: July 13, 1998